

Backgrounder:
Payment Processing Service Providers (PPSP) and Crowdfunding '101'

This backgrounder provides a brief introduction to Payment Processing Service Providers (PPSP) and their interaction with crowdfunding platforms.

Payment service providers (PSPs) include a variety of entities that perform electronic payment functions, such as payment processors, digital wallets, currency transfer services, and other payment technology companies that offer any of the following services:

- providing and maintaining a payment account;
- holding funds until the end user withdraws or transfers them;
- initiating an electronic funds transfer as requested by an end user;
- authorizing or transmitting instructions about an electronic funds transfer; and
- clearing or settling electronic funds transfers.¹

Under the [Retail Payment Activities Act](#), the Bank of Canada is responsible for supervising PSPs. The aim is to build confidence in the safety and reliability of their services while protecting end users from specific risks. The Department of Finance Canada leads the development of regulations for this supervisory framework with support from the Bank.

As far back as 2017, the total payments market in Canada grew to 21.9 billion transactions worth over \$9.7 trillion. The 2017 data and analysis show a payments market that has continued its steady transition to electronic means of payment and a migration away from other methods of payment, such as cash and cheques.² This trend has continued upwards since that time.

Within this grouping are **Payment Processing Service Providers (PPSPs)**, which facilitate merchant acceptance of payments from customers by connecting them to payment networks for the purposes of authorization, clearing and settlement of transactions. They may also provide the technology, hardware, and services that enables the merchant to accept a variety of payment methods, including credit cards, debit cards, digital e-wallets (MasterPass) and bank-to-bank transactions. Examples of PPSPs operating in Canada include Stripe, Paypal, Square, Moneris, Payfirma, and Bambora.

PPSPs are not a reporting entity sector under the PCMLTFA and Regulations and are only subject to such regulatory obligations and requirements when they meet the definition of one of the reporting entity sectors such as a Money Service Business (MSB), or possibly a financial institution. Since this is not a covered sector under the PCMLTFA, FINTRAC does not receive direct reporting on transactions.

STRIPE Inc

STRIPE is an online PPSP company, headquartered in the USA and Ireland with global presence including a recently opened Toronto, ON office. It fashions itself as a technology company that builds economic infrastructure for the internet. Founded in 2010 by brothers Patrick and John Collison, it has raised \$2.2 billion from 39 investors including Elon Musk, Peter Thiel and Sequoia Capital. Its mission is *"to increase the GDP of the internet."*

¹ Bank of Canada

² Payments Canada's 2018 Methods and Trends Report, Retrieved from <https://www.payments.ca/industry-info/our-research/canadian-demands-speed-and-convenience-influencing-payments-innovation> (p.1)

Stripe Canada Payment Services Ltd (owned by Stripe, Inc), based out of Vancouver, BC, registered with FINTRAC as an MSB in September 2017 and appears to be the Canadian arm of Strip Inc. s.55

s.55 PCMLTFA

s.55 PCMLTFA

STRIPE's market share is between 11-18% in the payment processing category, the second largest after PayPal. STRIPE is one of the payment processors used by GoFundMe, along with Adyen and PayPal. GiveSendGo is not listed as a partner on STRIPE's official website, however, a scan of the "*Adopt a Trucker*" page on GiveSendGo indicates STRIPE is the payment processor, along with WePay. Other crowdfunding platforms reportedly partnered with STRIPE include Kickstarter, FundRazr, Thrinacia, Donate2 and RaiseTheMoney (a political fundraising site).

STRIPE's Board of Directors include the following individuals:

- Patrick Collison
- John Collison
- Christina Davies
- Diane Green
- Jonathan Chadwick
- Michael Moritz
- Mark Carney (joined February 2021)
- Matt Huang (joined November 2021)

Crowdfunding and PPSPs

Crowdfunding is the practice of funding a project or venture by raising financial contributions from a number of people, typically through online platforms, in order to carry out a project, investment or other endeavor requiring funds. Crowdfunding campaigns are often completed in conjunction with a dedicated crowdfunding platform or by initiating informal appeals through social media. A crowdfunding platform, also called a funding portal, posts crowdfunding projects on its website. Estimates of the sector vary. Globally, the crowdfunding industry is estimated to be worth US\$10.2 billion in 2018 and is expected to reach US\$28.8 billion by the end of 2025.

Unlike traditional fundraising methods (e.g. loans from financial institutions), crowdfunding allows individuals or groups to appeal for funds directly from members of the public.³ Crowdfunding platforms enable those connected online or through social media, who may be geographically dispersed, to pool resources towards common goals and projects that require financing.⁴ Donation-based crowdfunding is the most common form of crowdfunding - it allows donors to receive rewards/incentives in exchange for providing funds. Well-known platforms include Kickstarter and Fundrazr.

Crowdfunding is usually conducted over the Internet through crowdfunding platforms, therefore the geographic reach has the potential to be extensive, and potentially include jurisdictions of concern. Due diligence processes vary between crowdfunding platforms. Certain platforms, such as Kickstarter, operate exclusively as a forum to connect project backers and creators – offering no guarantee that funds are managed for their intended purpose. Other platforms, such as GoFundMe, offer some

³ Elizabeth Gerber and Julie Hui, "Crowdfunding: Motivations and Deterrents for Participation", ACM Transactions on Computing-Human Interaction, Vol. 20, No. 6, Article 34 (December 2013).

⁴ Crowdfunding and Possible Terrorist Financing Risks (FINTRAC 2016)

protections to guarantee donations, but are similarly unable to verify the ultimate expense of the donated funds. There is a risk that funding raised is misappropriated or diverted for illicit goals.

Transactions are performed occasionally through channels involving a high degree of anonymity and complexity. This can be done through falsifying KYC or not knowing the true beneficial owner.

Many of the crowdfunding platforms that currently exist use third party Payment Processing Service Providers (PPSPs) to enable the completion of payments involved in a crowdfunding project. For example, Kickstarter and GoFundMe payments are facilitated by Stripe.⁵ This means that the information related to the transaction as well as the movement of money itself, is fragmented along a number of different entities who may not have access to contextual information (such as source and purpose of the funds).⁶ Kickstarter payments, for example, are facilitated by Stripe payment processing, a program which advertises fraud detection capabilities.⁷ These PPSPs see all collected contributor data, verify the campaigning party with the bank of deposit, and could potentially monitor for fraud and ML/TF activity. However, they cannot see the source of funds from contributors.⁸

Financial institutions have also been willing to finance a certain percentage of the total amount being solicited, while the rest is funded by other donations. This has allowed financial institutions to play a role in crowdfunding while mitigating the risk of financial institutions losing business to crowdfunding.⁹

In a basic crowdfunding scenario, transfers of money and payments may entail:

- Receiving money from donors / crowdfunders to the project owner / promoter, which involves moving money from bank accounts, credit cards, or electronic wallets to the account(s) established by the project owner;
- Paying the crowdfunding platform for its services (a commission rate that can be anywhere from free (in some instances), between 5-9% for most standard projects, or as much as 15-20% for high-end securities related project – note that platforms charge a higher commission rate for failed or partial campaigns than for successful ones);¹⁰ and,
- Paying transaction fees to the payment processor that is involved.

⁵ “Radar” (Stripe) <https://stripe.com/en-ca/radar>

⁶ ACFCS (May 2016) “The Risky Relationship Between Payment Facilitators and Charity-Focused Crowdfunding Sites”. <https://www.acfcs.org/the-risky-relationship-between-payment-facilitators-and-charity-focused-crowdfunding-sites/>

⁷ “Radar” (Stripe) <https://stripe.com/en-ca/radar>

⁸; <https://www.acfcs.org/news/300034/The-risky-relationship-between-payment-facilitators-and-charity-focused-crowdfunding-sites.htm>

⁹ K.M. Veldhuizen-Koeman, “Financial Institutions and Crowdfunding: Exposure to money laundering and terrorist financing and what could be done to mitigate it”. ACAMS.

Accessible here: <https://www.acams.org/aml-white-paper-crowd-sourcing/>

¹⁰ Forbes. “6 Top Crowdfunding Websites: Which One is Right For Your Project?” (Aug 2013).

<http://www.forbes.com/sites/katetaylor/2013/08/06/6-top-crowdfunding-websites-which-one-is-right-for-your-project/2/>

<http://www.crowdfundinsider.com/2013/11/26291-sec-made-equity-crowdfunding-economically-unfeasible/>

ANNEX: Intelligence Perspectives of PPSPs

Virtual currencies, email money transfers and payment processors in particular have increased in prominence in FINTRAC's reporting.¹¹ New technologies differ from product to product; however, some offer benefits to potential money launderers and terrorist financiers, including enhanced anonymity, quicker transactions and transactions outside of the financial system currently covered by AML and ATF regulations. Over the past several years, FINTRAC has noted an increased prevalence of new technologies in its suspicious transaction reports and disclosures of money laundering and terrorist financing activities to law enforcement.

In a financial intelligence report on the laundering of the proceeds of child exploitation, FINTRAC found in its analysis of 98 transactions that individuals in Canada suspected to be involved in distributing and selling international child pornography most often (56 percent) received payments from purchasers through payment processors. The average value of transactions carried out through payment processors was approximately \$50. Payment processors deposited the funds directly into the personal bank accounts of the individuals suspected of distributing and selling the images. These perpetrators would use these funds for daily expenditures, such as bill payments and loan repayments. FINTRAC assesses that more transactions related to the international distribution and sale of child pornography have likely taken place than have been reported to FINTRAC.¹²

Based on its analysis of various financial intelligence reports regarding payment processors, FINTRAC further assesses that suspected individuals involved in illicit activity using payment processors often possess strong technical skills, using the Internet as a tool to share and collect payments and hide their criminal activities.

Misuse of PPSP is often similar to other layering methods, and can include:¹³

- Front companies, which use legitimate businesses to cover for criminal activity.
- Pass-through companies, which give illegal businesses access to a legitimate company's payments processing account to process credit card receipts.
- Funnel accounts accept credit card charges from multiple companies that do not have their own merchant payment account. The funnel company enters the payments as legitimate transactions to the card payment processing system.

In an operational alert published in April 2019, FINTRAC found that the laundering of the proceeds of romance fraud largely resembles that of other types of mass marketing fraud. In this assessment, there were multiple instances where client receives payments from payment processors that were deemed inconsistent with the client's profile¹⁴.

¹¹ FINTRAC (2019) Operational Brief: Risks and Indicators for Dealers in Precious Metals and Stones. Retrieved from <https://www.fintrac-canafe.gc.ca/intel/operation/dpms-eng> . See ANNEX A.

¹² FINTRAC –SIDEL analysis, 2019

¹³ *The Growing threat of transaction laundering: What banks and processors need to know to safeguard the payment system – and themselves* (Legal Solutions USA, Thompson Reuters), <https://legalsolutions.thomsonreuters.com/law-products/solutions/clear-investigation-software/anti-money-laundering/the-growing-threat-of-transaction-laundering>

¹⁴ <https://www.fintrac-canafe.gc.ca/intel/operation/rf-eng>